



Chapter 7

B. Performance-Based Management and Budgeting

California's current incremental budgeting process is widely acknowledged as "broken." The current budget process forces the Governor and the Legislature to focus on individual department requests for increased expenditures rather than on broad policy issues that impact the people of California the most.

California's traditional line-item system of budgeting outlines how much money has been spent on specific operating costs (training, travel, overtime, etc.) but does not provide information on performance or productivity. A department is measured not by the effectiveness of its programs but by bottom line expenditures. This does not allow for efficient management of programs.

Ineffective programs are allowed to continue without review and programs which have outlived their purpose cannot be identified easily. The long-term effectiveness of a program is seldom revisited once it is in a department's baseline budget. Limited attention is given to evaluating performance because there is no standard measurement system in place. Accountability for services the public expects and to which they are entitled is virtually impossible. In 1999, the Senate Advisory Commission on Cost Control in State Government noted that an estimated 60 to 70 percent of the annual budget is approved without significant scrutiny.

Planning and performance assessments play an insignificant role in the state's budgeting and management process. Decision-makers continually must make budget decisions with limited information. The system must change to enable decision-makers to set priorities proactively, determine strategies, assess performance and revise funding levels accordingly. Under the current system goals are not reprioritized when revenues fall short and management is not held accountable for program performance. Instead, cuts are made equally across all government as a quick way of reducing budgets and expenditures with little thought toward the outcomes.

To make state government more accountable and responsive to the needs and interests of the public, a performance management system is needed that will promote rational decision-making by state officials and program managers. By developing a comprehensive performance-based management system California will be able to focus on and respond to customer needs, measure and evaluate service delivery and base program and funding

decisions on valid performance data. The data should focus on priorities, strategies to meet those priorities, current performance assessments emphasizing accountability and the development of new or revised strategies.

The core recommendation of our proposals is the introduction of Performance-Based Management to California's budget, financial and management processes. Each proposal outlines specific recommendations believed necessary to accomplish performance-based management. With its reliance on strategic planning and performance measurement systems, performance-based management links resources to the ultimate program outcomes. This focus on measurable results allows policy makers to gain clear information on the impact of expenditures and provides the necessary information to make sound fiscal decisions; allows the public to see the impact of the dollars expended; provides actual accountability to the state's civil service management structure; and can provide for improved delivery of services to the people of California by focusing on management efficiencies and elimination of under-performing, ineffective programs.

A key recommendation involves modernizing statewide financial information systems. Some investment is needed to support performance-based management. Timely and meaningful information is essential to measure and manage government performance. Investment in a modern, statewide financial information system that is capable of integrating with existing departmental systems is needed for measuring performance, formulating budgets, and evaluating programs. This will allow the state to quantify the full cost of government programs.

Ongoing improvement in the efficiency of state government requires a focus on business process reforms. These can range from automating manual processes to improving employee training. The state should provide resources to provide an incentive to encourage and fund these reforms. An innovative recommendation included in this chapter proposes the creation of a 21st Century Innovation Fund to provide that type of incentive in the form of a competitive revolving loan fund.